

Susan D. Ritenour
Secretary and Treasurer
and Regulatory Manager

One Energy Place
Pensacola, Florida 32520-0781

Tel 850.444.6231
Fax 850.444.6026
SDRITENO@southernco.com

ORIGINAL



October 11, 2004

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

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Dear Ms. Bayo:

RE: Docket No. 040007-EI

Enclosed are an original and ten copies of the Prehearing Statement of Gulf Power Company to be filed in the above docket.

Also enclosed is a 3.5 inch double sided, high density diskette containing the Statement in Microsoft Word for Windows format as prepared on a Windows NT based computer.

Sincerely,

Susan D. Ritenour (lew)

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- ECR _____ Enclosure
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cc: Beggs and Lane
J. A. Stone, Esquire

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lew

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery)
Clause)
_____)

Docket No. 040007-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished this 11th day of October 2004 by U.S. Mail or hand delivery to the following:

Marlene Stern, Esquire
Staff Counsel
FL Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0863

John T. Butler, Esquire
Steel, Hector & Davis LLP
200 S. Biscayne Blvd., Ste 4000
Miami FL 33131-2398

Robert Vandiver, Esquire
Office of Public Counsel
111 W. Madison St., Room 812
Tallahassee FL 32399-1400

Lee L. Willis, Esquire
James D. Beasley, Esquire
Ausley & McMullen
P. O. Box 391
Tallahassee FL 32302

Vicki Gordon Kaufman, Esquire
McWhirter Reeves, P.A.
117 S. Gadsden Street
Tallahassee FL 32301

John W. McWhirter, Jr., Esquire
McWhirter Reeves, P.A.
400 N Tampa St Suite 2450
Tampa FL 33602

Gary V. Perko, Esquire
Hopping Green & Sams
P. O. Box 6526
Tallahassee FL 32314

James McGee, Esquire
Progress Energy Service Co., LLC
P. O. Box 14042
St. Petersburg FL 33733-4042



JEFFREY A. STONE

Florida Bar No. 325953
RUSSELL A. BADDERS
Florida Bar No. 0007455
Beggs & Lane
P. O. Box 12950
Pensacola FL 32591-2950
850 432-2451
Attorneys for Gulf Power Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery)
Clause)
)
)

Docket No. 040007-EI
Date Filed: October 12, 2004

PREHEARING STATEMENT OF GULF POWER COMPANY

Gulf Power Company, ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned attorneys, and pursuant to Rule 25-22.038(3), Florida Administrative Code, files this prehearing statement, saying:

A. APPEARANCES:

JEFFREY A. STONE, Esquire, and RUSSELL A. BADDERS,
Esquire, of Beggs & Lane, P.O. Box 12950, Pensacola, FL
32591-2950
On behalf of Gulf Power Company.

B. WITNESSES: All witnesses known at this time, who may be called by Gulf Power Company, along with the subject matter and issue numbers which will be covered by the witness' testimony, are as follows:

<u>Witness</u> <u>(Direct)</u>	<u>Subject Matter</u>	<u>Issues</u>
1. J. O. Vick (Gulf)	Environmental compliance activities (True-ups and Projection)	1, 2, 4, 12A, 12C, 12E, 12G
2. T. A. Davis (Gulf)	Environmental compliance cost recovery calculations (True-ups and Projection)	1, 2, 3, 4, 5, 6, 7, 8, 12B, 12D, 12F, 12H

DOCUMENT NUMBER-DATE

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C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(JOV-1)	Vick	Correspondence; Program Documentation
(TAD-1)	Davis	Calculation of Final True-up 1/03 – 12/03
(TAD-2)	Davis	Calculation of Estimated True-up 1/04 – 12/04
(TAD-3)	Davis	Calculation of Projection 1/05 - 12/05

D. STATEMENT OF BASIC POSITION

Gulf Power Company's Statement of Basic Position:

It is the basic position of Gulf Power Company that the environmental cost recovery factors proposed by the Company present the best estimate of Gulf's environmental compliance costs recoverable through the environmental cost recovery clause for the period January 2005 through December 2005 including the true-up calculations and other adjustments allowed by the Commission.

E. STATEMENT OF ISSUES AND POSITIONS

Generic Environmental Cost Recovery Issues

ISSUE 1: What are the appropriate final environmental cost recovery true-up amounts for the period ending December 31, 2003?

GULF: Over recovery \$631,135¹. (Vick, Davis)

ISSUE 2: What are the estimated environmental cost recovery true-up amounts for the period January 2004 through December 2004?

GULF: Under recovery \$113,651. (Vick, Davis)

¹ Issues 1 and 7 reflect a correction of an error in the initial filing. Updated schedules will be filed on October 13, 2004.

ISSUE 3: What are the total environmental cost recovery true-up amounts to be collected/refunded during the period January 2005 through December 2005?

GULF: Refund of \$517,484. (excluding revenue taxes) (Davis)

ISSUE 4: What are the appropriate projected environmental cost recovery amounts for the period January 2005 through December 2005?

GULF: \$26,067,223. (Vick, Davis)

ISSUE 5: What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery amounts for the period January 2005 through December 2005?

GULF: The depreciation rates used to calculate the depreciation expense should be the rates that are in effect during the period the allowed capital investment is in service. (Davis)

ISSUE 6: What are the appropriate jurisdictional separation factors for the projected period January 2005 through December 2005?

GULF: The demand jurisdictional separation factor is 96.64872%. Energy jurisdictional separation factors are calculated each month based on retail KWH sales as a percentage of projected total territorial KWH sales. (Davis)

ISSUE 7: What are the appropriate Environmental Cost Recovery Factors for the period January 2005 through December 2005 for each rate group?

GULF: See table below: (Davis)

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RSVP	.238
GS	.237
GSD, GSDT, GSTOU	.232
LP, LPT	.224
PX, PXT, RTP, SBS	.217
OS-I/II	.213
OSIII	.223

ISSUE 8: What should be the effective date of the new environmental cost recovery factors for billing purposes?

GULF: The factors should be effective beginning with the specified billing cycle and thereafter for the period January 2005, through December 2005. Billing cycles may start before January 1, 2005, and the last cycle may be read after December 31, 2005, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Davis)

Company - Specific Environmental Cost Recovery Issues

ISSUE 12A: Should the Commission approve Gulf's request for recovery of costs for Precipitator Upgrades for Compliance Assurance Monitoring of particulate air emissions and flue-gas opacity at Plant Smith Unit 1 through the Environmental Cost Recovery Clause?

GULF: Yes. The precipitator upgrades are required to comply with new requirements in Gulf's Title V Permit which is expected to become final in December 2004. Title

V requires continuous monitoring of particulate emissions. Opacity monitoring is an acceptable surrogate for particulate emissions monitoring. Gulf will monitor opacity in lieu of particulate emission monitoring. As a result, Gulf must upgrade the precipitators on certain of its generating units to meet the new opacity requirements in its new Title V Permit. (Vick)

ISSUE 12B: How should Gulf's newly proposed environmental costs for the Precipitator Upgrades for Compliance Assurance Monitoring at Plant Smith Unit 1 be allocated to the rate classes?

GULF: The capital costs associated with this project should be allocated to the rate classes on an energy basis. (Davis)

ISSUE 12C: Should the Commission approve Gulf's request for recovery of costs for Turtle Protective Lighting within the City of Destin and Bay County through the Environmental Cost Recovery Clause?

GULF: Yes. This program is necessary for Gulf to meet the requirements of both federal law and local ordinances. Title 50, Code of Federal Regulations, Part-17 and new ordinances in the City of Destin and Bay County require Gulf to take steps to protect sea turtle nesting areas along the shoreline from Panama City to Perdido. Gulf will be installing sea turtle protective lighting in the affected areas. (Vick)

ISSUE 12D: How should Gulf's newly proposed environmental costs for the Turtle Protective Lighting within the City of Destin and Bay County be allocated to the rate classes?

GULF: The capital costs associated with his project should be allocated to the rate classes on a 12 Coincident Peak (CP) and 1/13 Average Demand basis. (Davis)

ISSUE 12E: Should the Commission approve Gulf's request for recovery of Cooling Water Intake Studies pursuant to Section 316(b) of the Clean Water Act through the Environmental Cost Recovery Clause?

GULF: Yes. Gulf must comply with new performance standards of Section 316(b) of the Clean Water Act. The studies will enable Gulf to determine the best compliance strategy and implementation schedule for achieving compliance with these new standards. (Vick)

ISSUE 12F: How should Gulf's newly proposed environmental costs for the Cooling Water Intake Studies be allocated to the rate classes?

GULF: The capital costs associated with his project should be allocated to the rate classes on a 12 Coincident Peak (CP) and 1/13 Average Demand basis. (Davis)

ISSUE 12G: Should the Commission approve Gulf's request for recovery of costs for compliance studies due to a proposed new arsenic standard, 62-550.310, Florida Administrative Code, through the Environmental Cost Recovery Clause?

GULF: Yes. The Florida Department of Environmental Protection has adopted a new groundwater standard for arsenic, which lowers the standard from 0.05 mg/L to 0.01 mg/L. Gulf must conduct a groundwater study during 2005 at Plant Scholz and Plant Crist due to projected groundwater impacts in excess of the new arsenic standard. The study is necessary to determine the nature of the impacts on the aquifer and identify the appropriate strategy for compliance with the new arsenic standards. (Vick)

ISSUE 12H: How should Gulf's newly proposed environmental costs for compliance studies due to a proposed new arsenic standard, 62-550.310, Florida Administrative Code, be allocated to the rate classes?

GULF: The proposed operation and maintenance costs for compliance studies due to a proposed new arsenic standard, 62-550.310, Florida Administrative Code, should be allocated on a 12 Coincident Peak (CP) and 1/13 Average Demand basis. (Davis)

F. STIPULATED ISSUES

GULF: Yet to be determined. Gulf is willing to stipulate that the testimony of all witnesses whom no one wishes to cross examine be inserted into the record as though read, cross examination be waived, and the witness's attendance at the hearing be excused.

G. PENDING MOTIONS:

GULF: NONE.

H. OTHER MATTERS:

GULF: To the best knowledge of counsel, Gulf has complied with all requirements set forth in the orders on procedure and/or the Commission rules governing this

prehearing statement. If other issues are raised for determination at the hearings set for November 8-10, 2004, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 11th day of October, 2004.

Respectfully submitted,



JEFFREY A. STONE

Florida Bar No. 325953

RUSSELL A. BADDERS

Florida Bar No. 007455

Beggs & Lane

P. O. Box 12950

Pensacola, FL 32591-2950

(850) 432-2451

Attorneys for Gulf Power Company